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**DISCOVERY MINES
LIMITED**

1973

ANNUAL REPORT

DISCOVERY MINES LIMITED

OFFICERS

J. C. BYRNE
President and Managing Director

J. K. B. BOOTH
Vice-President

D. R. McEWEN
Secretary-Treasurer

DIRECTORS

J. K. B. BOOTH, Toronto
Partner, Derry, Michener & Booth, Consulting Geologists

J. C. BYRNE, Toronto
President and Managing Director, Rayrock Mines Limited,
Managing Director, Avoca Mines Limited

C. M. EVANS, Toronto
Vice-President, Ashland Oil Canada Limited

E. S. HOLMGREN, Detroit
Retired Mining Executive

H. EARL JOUDRIE, Toronto
President and Chief Executive Officer, Ashland Oil Canada Limited

D. O. MUNGOVAN, Toronto
Queen's Counsel, Mungovan & Mungovan

G. T. SMITH, Toronto
President, United Siscoe Mines Limited and Camflo Mines Limited
Executive Vice-President and Secretary, Northgate Explorations Limited

MANAGEMENT

J. C. BYRNE
Managing Director

R. J. KILGOUR
General Manager

EXECUTIVE ENGINEER

L. A. BEDNARZ, P.Eng.

EXECUTIVE OFFICE

Suite 1011, 2200 Yonge Street, Toronto, Canada

TRANSFER AGENTS AND REGISTRARS

CROWN TRUST COMPANY, Toronto

BANKERS

ROYAL BANK OF CANADA, Bay and Temperance Branch, Toronto

AUDITORS

COOPERS & LYBRAND, Toronto

SOLICITORS

MUNGOVAN & MUNGOVAN, Toronto

ANNUAL MEETING

May 28, 1974
10:00 a.m.

Room No. 3, Main Mezzanine
Royal York Hotel
Toronto

DISCOVERY MINES LIMITED

Directors' Report to the Shareholders

We are pleased to present this Twenty-Seventh Annual Report of Discovery Mines Limited for the year ended December 31, 1973, and an account of events since that time.

FINANCIAL

Net earnings of your Company were \$501,092, equivalent to 18 cents per share, compared to a net loss of \$199,658 for the previous twelve month period. The accounting method adopted reflects the results of Discovery's subsidiaries, Avoca Mines Canada Limited and Camlaren Mines Limited, as well as the Company's share of income and/or loss from intercorporate investments by the equity method; these include Rayrock Mines and Tundra Gold Mines.

OUTLOOK

As a result of the dramatic appreciation during the past year in the gold price, now at \$170 per ounce, gold is expected to play a very important role in your Company's future. In fact, we are optimistic of the chances for eventual production from three of our interests — two in the Northwest Territories and the other in the Yukon.

The small, high grade gold prospect of Camlaren Mines is being re-opened, and a program of shaft deepening and underground exploration is to follow the winter mobilization of equipment and supplies now in progress.

The large tonnage, low grade gold deposit of Johnsby Mines, owned 50 per cent by Discovery, will be the object this summer of a major diamond drilling program by Cominco Ltd., a large Canadian mining company.

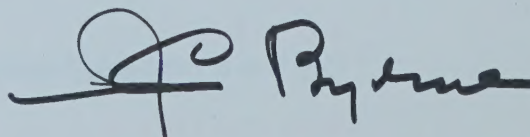
The partially developed and wholly-owned LaForma property will receive immediate attention in the form of a geochemical survey while tentative plans for next year include underground exploration to expand known reserves.

Gold is also important in the future of Rayrock Mines, an associated company. Three low grade deposits, amenable to open pit mining and located in Nevada, are currently the subject of feasibility studies by an exploration syndicate in which Rayrock is a partner.

Discovery's investment in the Avoca copper operation finally shows promise of being fully recovered and contributing income for many years.

Immediately following is a more detailed report covering production and exploration of our subsidiary and affiliated companies for 1973 and their plans for 1974.

On behalf of the Board,



President and Managing Director

Toronto, Canada
April 11, 1974

DISCOVERY MINES LIMITED

Mining Operations and Interests

AVOCA MINES CANADA LIMITED

Net profit of \$1,276,724 and cash flow of \$3,200,219 were recorded for the 1973 year by Avoca Mines Canada and its wholly-owned Irish subsidiary. Gains in revenue and profit were due primarily to strong copper prices, unlike the depressed levels that prevailed in 1972.

Average mill throughput of 2,926 tons per day was essentially unchanged while copper production of 15.3 million pounds declined by 12 per cent. Pyrite output remained steady. Open pit ore provided one fifth of the mill requirements and underground sources the balance.

Satisfactory progress is being recorded for the depth development program and the mill expansion to 4,000 daily tons, scheduled for completion late in 1974. Increased underground production will be made possible by the installation of a larger crusher together with expansion and modernization of the existing conveyor system.

Proven and probable ore reserves as at January 1, 1974, totalled 6.2 million tons averaging 0.94 per cent copper before allowance for dilution. Open pit reserves represent one quarter of the total. Substantial additional tonnages in the inferred category are reported.

Exploration of a portion of the Avoca mine lease and several adjacent prospecting permit areas is being undertaken by a wholly-owned Irish subsidiary of Esso Eastern, Inc., under a working option arrangement. Thus far two major airborne conductor systems have been disclosed which are regarded as prime drill targets.

Announcement is awaited of the amending tax legislation to which all mines in Eire will be subject commencing this April. While previous incentives will be replaced by less attractive legislation, preliminary indications suggest the new tax bill will be reasonable. Consideration in the form of tax relief will apparently be accorded marginal operations to ensure their continuing viability.

RAYROCK MINES LIMITED

Rayrock's 1973 earnings before exploration expenditures and provision for income tax were \$934,388, approximately double that of the previous fiscal year. However, the expense of two major underground exploration ventures resulted in a modest net loss of \$20,908.

Improvements in crude oil and copper prices were reflected in increased operating profits recorded by the Company's petroleum division and its interest in the Icon Sullivan Joint Venture copper mine. Investment income gained substantially.

As at January 31, 1974, Rayrock's working capital was \$2.1 million and investments in listed securities, most of them gold issues, had a market value of \$4.9 million.

Probably the most important current exploration involvement concerns three low grade gold deposits situated in Nevada and discovered by the Cordex Syndicate, financed equally by four Canadian mining companies including Rayrock. The overall drill indicated tonnage of the three occurrences and extractable by open pit is 3.7 million tons; the better grade deposit contains 1.5 million tons averaging 0.18 ounces gold per ton. Preliminary feasibility studies have been conducted and a production decision is anticipated this year.

Discovery owns 995,400 shares of Rayrock Mines, representing a 22.3 per cent equity.

CAMLAREN MINES LIMITED

Underground exploration will commence this summer on the partially developed Camlaren gold property situated at Gordon Lake, some 60 air miles northeast of Yellowknife. To cost an estimated

DISCOVERY MINES LIMITED

\$650,000, the program will entail deepening of the vertical shaft to enable depth investigation of a high grade gold occurrence known as the Hump Vein.

The 21-claim Camlaren property has been idle since Discovery Mines reopened the mine in 1962 in a program designed to determine the grade and mining characteristics of the Hump Vein. Some 13,000 tons of ore were extracted which yielded recoveries of 1.13 ounces gold and 0.32 ounces of silver per ton from treatment in the Discovery mill. Underground drilling from the bottom level at 350 feet indicated the vein continuing strong and containing high grade gold values at 625 feet.

Under the terms of a long standing agreement between the two companies Discovery may earn a 66 $\frac{2}{3}$ per cent undivided interest in the Camlaren property in consideration of Discovery carrying out the proposed development program as specified in the agreement. Discovery owns a 68 per cent share equity in Camlaren and has had a mining plant and most of the necessary supplies on the property for the past several years.

JOHNSBY MINES LIMITED

Cominco Ltd. will conduct a major drilling program this year on the gold property of Johnsby Mines, a private company owned equally by Discovery Mines and Hydra Explorations. The work is primarily to confirm and expand tonnages indicated by surface and underground exploration together with bulk sampling performed in the 1940s.

Under the terms of the Johnsby-Cominco Agreement Cominco has agreed to spend a minimum of \$250,000, and should \$3,000,000 be expended by 1979, Cominco would earn a 60 per cent interest in the property. Johnsby may then maintain a 40 per cent equity in the property by providing 20 per cent of the necessary finances; election of non-participation by Johnsby would result in its interest being reduced to 20 per cent.

Located in the Indin Lake region, some 125 air miles north of Yellowknife, the Johnsby property of 71 claims hosts a gold-bearing quartz diorite porphyry dyke traced on surface for a strike length of 20,000 feet and varying in width from 70 to 200 feet. While most of the structure has been drilled at 500 foot intervals, a section 3,000 feet long was detailed by 37 holes and 2,500 feet of underground drifting and crosscutting. Approximately 15 million tons averaging 0.08 ounces per ton is indicated for the detailed portion of the dyke much of which is amenable to open pit mining. Metallurgical tests have demonstrated excellent recoveries by cyanidation.

LAFORMA PROPERTY

Surface exploration will be conducted this summer on the LaForma gold property located near Carmacks in the Yukon Territory. A geochemical survey is to be undertaken which may be followed by trenching and drilling. Tentative plans for next year include an underground exploration effort.

The LaForma property was acquired by Discovery in 1964 following the amalgamation of Ormsby Mines and Consolidated Discovery Yellowknife Mines. Earlier underground work by Ormsby was followed by a Discovery program designed, in part, to establish vertical continuity to known ore shoots developed on two adit levels.

Production was initiated in mid-1965 and was suspended nine months later due to an inadequate flow sheet and to problems occasioned by a premature startup deemed necessary to qualify for federal cost aid assistance that would not have been available after June, 1965, to new, isolated gold mines.

While the main G-3 gold deposit is somewhat erratic the grade is generally good as evidenced by the results of six holes drilled below the bottom adit level, which holes returned an average of 0.90 ounces gold per ton over an average true width of 4.4 feet. This drilling covered a vertical range of 380 feet below an ore shoot which had given a continuous drift length of 372 feet of 1.0 ounce grade over a mining width of five feet. Estimated reserves in the G-3 Zone at the time of mine closure were 70,000 tons grading 0.44 ounces gold per ton calculated for a 5.5 foot mining width. In addition to the G-3 Zone there are six other known gold bearing showings on the property.

DISCOVERY MINES LIMITED

NORITA QUEBEC MINES LIMITED

Shaft sinking to a depth of 1,600 feet has just commenced on the Norita Division property of Orchan Mines Limited. Mine production and ore shipments to the nearby Orchan mill are scheduled to begin in 1976.

Drill indicated reserves, before dilution, are 1,638,000 tons averaging 7.6% zinc, 0.7% copper, and 1.0 ounces silver per ton. Additional ore reserves are anticipated.

Orchan had expended approximately \$1.7 million to the end of 1973 on the Norita project, of which over one half of this amount was for the purchase of a used mining plant which has been moved to the Matagami area property and erected.

Under the terms of the Orchan acquisition Norita Quebec Mines will receive \$500,000 payable out of early production and, as a further consideration, will be entitled to 25 per cent of net profits from all ore extracted after Orchan has recovered its preproduction expenditures and interest thereon.

Discovery's equity in Norita is 13.7 per cent, and the other two shareholders are Radiore Uranium Mines and Amagami Mines with a 54.8 and 31.5 per cent interest respectively.

DISCOVERY — RADIORE PROPERTY Isle Dieu Township, Quebec

Additional exploration will be conducted by Noranda Exploration on the 37 claim copper prospect owned jointly by Discovery (20%) and Radiore Uranium (80%). Located immediately west of the Norita development the Discovery-Radiore property is under option to Noranda Exploration which, to November, 1973, had expended approximately \$80,000 on a program of geophysics, soil sampling and diamond drilling. Ten holes were drilled to probe several weak conductors, most of which were explained by water-bearing shear and fracture zones.

Further exploration by Noranda would probably be concentrated on a known sulphide zone which had been traced for a strike length of 5,000 feet in the original work. While several of the joint venture drill intersections returned copper values approaching ore grade, the shape and attitude of the zone is poorly defined by geophysics, and only a weak response was indicated from an I.P. survey performed by Noranda.

Under the option agreement Noranda Exploration may, upon the aggregate expenditure of \$150,000 prior to September, 1975, elect to incorporate a new company to acquire the property in which Discovery and Radiore would jointly own a 25 per cent carried interest.

J. C. BYRNE,
Managing Director.

DISCOVERY MINES LIMITED

Consolidated Balance Sheet

ASSETS

	1973 \$	1972 \$
Current assets		
Cash	41,062	35,066
Short-term investment — at cost	15,179	—
Smelter settlements receivable	1,042,897	417,464
Concentrates on hand (note 2)	959,449	528,389
Accounts receivable and prepaid expenses	196,282	150,352
	<u>2,254,869</u>	<u>1,131,271</u>
Long-term inter-corporate investments (note 3)	<u>1,268,924</u>	<u>1,233,900</u>
Mining properties (note 4)		
Mining claims and options	415,014	420,889
Land, buildings and equipment	4,359,822	3,742,261
Deferred exploration and development expenditure	4,440,630	4,787,593
	<u>9,215,466</u>	<u>8,950,743</u>
Other assets		
Mine stores — at cost	564,124	487,838
Deferred financing expenses (note 5)	316,203	162,403
Incorporation expense	—	6,537
	<u>880,327</u>	<u>656,778</u>
	<u><u>13,619,586</u></u>	<u><u>11,972,692</u></u>

as at December 31, 1973

LIABILITIES

	1973 \$	1972 \$
Current liabilities		
Bank indebtedness (note 6)	869,420	903,621
Accounts payable and accrued expenses	1,554,477	1,091,958
Current portion of long-term debt	136,950	—
	<u>2,560,847</u>	<u>1,995,579</u>
Long-term debt (note 7)	3,933,737	2,996,500
Bank financing (note 8)	425,272	1,313,340
Minority interest (note 9)	1,954,245	1,422,880
	<u>8,874,101</u>	<u>7,728,299</u>

SHAREHOLDERS' EQUITY

Capital stock		
Authorized —		
4,000,000 shares of \$1 par value each		
Issued —		
2,748,773 shares	2,748,773	2,748,773
Contributed surplus	194,224	194,224
Retained earnings (note 14)	1,802,488	1,301,396
	<u>4,745,485</u>	<u>4,244,393</u>

Signed on behalf of the Board,

J. C. BYRNE, Director.

D. O. MUNGOVAN, Director.

13,619,586

11,972,692

DISCOVERY MINES LIMITED

Consolidated Statement of Earnings

For the Year Ended December 31, 1973

	1973 \$	1972 \$
Mining activities — Avoca, Ireland		
Sales of concentrates	12,555,740	9,004,462
Smelter charges, freight and mine operating expenses including current development	9,111,825	7,595,167
Mine operating profit before depreciation and amortization of deferred expenditure (note 4)	3,443,915	1,409,295
Revenue from investments		
Share of income (loss) determined by the equity method (note 1)	(4,705)	43,789
Other investment income (note 3 (e))	22,306	24,393
	3,461,516	1,477,477
Deduct: Depreciation	972,793	676,784
Amortization of deferred development and deferred finance charges	1,026,270	668,711
Interest on long-term debt	17,850	17,850
Other interest	170,580	124,698
Property maintenance	24,411	23,539
Exploration expenditures	7,438	26,760
Head office expenses	82,881	62,527
	2,302,223	1,600,869
Income (loss) before additional financing expense and minority interest	1,159,293	(123,392)
Bank financing expense in the form of dividends on preferred shares of Avoca Ireland (note 8)	125,987	266,548
	1,033,306	(389,940)
Minority shareholders' interest in earnings (loss) of subsidiary companies	532,214	(190,282)
Net earnings (loss) for the year	501,092	(199,658)
Net earnings (loss) per share	\$0.18	(\$0.07)

DISCOVERY MINES LIMITED

Consolidated Statement of Source and Use of Funds

For the Year Ended December 31, 1973

	1973 \$	1972 \$
Source of funds		
Current operations (note 13)	3,048,637	922,240
Sale of investments	26,243	15,034
Increase in long-term debt	937,237	—
	<u>4,012,117</u>	<u>937,274</u>
Use of funds		
Additions to fixed assets	1,590,354	416,446
Development expenditures — deferred	717,454	—
Financing expense	181,625	—
Increase (decrease) in mine stores	76,286	(56,602)
Reduction of bank financing	888,068	187,620
Purchase of shares of subsidiary	—	80,994
	<u>3,453,787</u>	<u>628,458</u>
Increase in working capital	<u>558,330</u>	<u>308,816</u>
Working capital deficiency — beginning of year	<u>864,308</u>	<u>1,173,124</u>
Working capital deficiency — end of year	<u>305,978</u>	<u>864,308</u>

Consolidated Statement of Retained Earnings

For the Year Ended December 31, 1973

	1973 \$	1972 \$
Balance — beginning of year	1,301,396	1,501,054
Net earnings (loss) for the year	501,092	(199,658)
Balance — end of year (note 14)	<u>1,802,488</u>	<u>1,301,396</u>

DISCOVERY MINES LIMITED

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1973

1. BASIS OF STATEMENT PRESENTATION

- (a) The accounts of Camlaren Mines Limited (68% owned) and the consolidated accounts of Avoca Mines Canada Limited (54% owned) have been consolidated in these financial statements. The company's share of net earnings and losses of the effectively controlled companies (note 3) has been included in the determination of consolidated results of operations.
- (b) Current assets and current liabilities of the Irish subsidiary Avoca Mines Limited (Avoca Ireland) at December 31, 1973 have been converted to Canadian currency at the rate of exchange prevailing at that date. Other assets and liabilities have been converted at historical rates.

2. CONCENTRATES ON HAND

	1973 \$	1972 \$
Copper concentrates at estimated net realizable value	783,690	424,197
Other concentrates at estimated net realizable value	175,759	104,192
	<u>959,449</u>	<u>528,389</u>

In computing the estimated net realizable value of copper concentrates on hand at December 31, 1973, a price of \$1.01 (1972 — \$0.46½) per pound of copper has been used.

3. LONG-TERM INTER-CORPORATE INVESTMENTS

	1973 \$	1972 \$
(a) This item comprises:		
Investment in shares of companies accounted for by the equity method (note 3 (b)):		
Rayrock Mines Limited — 22.3% owned	1,112,842	1,139,327
Tundra Gold Mines Limited — 27.3% owned	55,257	59,720
	<u>1,168,099</u>	<u>1,199,047</u>
Listed shares — at cost	25,414	25,414
Other shares and debentures at cost, less amounts written off (note 3 (f))	75,411	9,439
	<u>1,268,924</u>	<u>1,233,900</u>

- (b) The investment in shares of companies accounted for by the equity method is carried at cost, adjusted by the company's share of their earnings or losses since effective control was acquired. The quoted market value of these shares is \$1,217,000 (1972 — \$1,143,000).
- (c) Listed shares have a quoted market value of \$6,700 (1972 — \$14,800).
- (d) The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.
- (e) Gains of \$22,306 (1972 — \$23,580) on realization of investments are included in income.
- (f) Debentures consist of \$440,000 Tundra Gold Mines Limited income debentures due April 1, 1975 which are valued at \$1.

4. MINING PROPERTIES

	1973 \$	1972 \$
(a) Mining claims and options — at cost:		
32 claims Yukon Territory	69,312	69,312
19 claims Discovery N.W.T.	71,200	71,200
21 claims Gordon Lake Area N.W.T.	274,500	280,375
Sundry	2	2
	<u>415,014</u>	<u>420,889</u>

Mining claims and options were acquired for cash and shares of capital stock as valued by the directors of the applicable company.

	1973 \$	1972 \$
(b) Land, buildings and equipment:		
Avoca Ireland — fixed assets at cost, less accumulated depreciation (1973 — \$1,862,783; 1972 — \$1,440,121)	4,280,273	3,661,586
La Forma, Yukon Territory and Discovery, N.W.T. — fixed assets at mining properties carried at cost, less realizations and accumulated depreciation to shut-down dates	79,549	80,675
	<u>4,359,822</u>	<u>3,742,261</u>

Depreciation is provided on fixed assets of Avoca Ireland on a basis which will write off their cost within their expected lives.

DISCOVERY MINES LIMITED

	1973	1972
	\$	\$
(c) Deferred exploration and development expenditure:		
Expenditures by Avoca Ireland to develop the mine, less amounts amortized (to December 31, 1973 — \$1,874,853; to December 31, 1972 — \$976,408). Amortization is calculated on a unit of production basis, with reference to reported ore reserves	4,155,238	4,336,229
Expenditures by predecessor companies on mining claims in the Mattagami Lake area of Quebec and other locations. It is the company's policy to carry these expenditures forward until such time as they can be written off against revenues from those properties or until the claims are sold or otherwise disposed of	285,392	451,364
	<u>4,440,630</u>	<u>4,787,593</u>
5. DEFERRED FINANCING EXPENSE	1973	1972
	\$	\$
Discount on liability to the Receiver referred to in note 7, less amortization to December 31, 1973 of \$58,922 (1972 — \$31,097)	134,578	162,403
Interest portion of equipment purchase contract — amortized over 5 year period of financing	181,625	—
	<u>316,203</u>	<u>162,403</u>
6. BANK INDEBTEDNESS		
Bank indebtedness is secured by deposit of title deeds and a debenture charge on all of the assets of Avoca Ireland.		
7. LONG-TERM DEBT	1973	1972
	\$	\$
This amount comprises the following obligations of subsidiaries:		
8½ % unsecured income debentures	1,000,000	1,000,000
7 % unsecured subordinated debentures	255,000	255,000
Due to the Receiver for St. Patrick's Copper Mines Limited	1,723,650	1,741,500
Amount owing on equipment	1,092,037	—
	4,070,687	2,996,500
Less: Current portion	136,950	—
	<u>3,933,737</u>	<u>2,996,500</u>
8½ % unsecured income debentures:		
These income debentures mature on December 31, 1975. Interest accrues from their date of issue and is payable on April 30 in each year only out of operating profits as defined. Such interest accumulated to December 31, 1973 amounts to \$367,500, but because there have not yet been sufficient operating profits this amount has not been recorded in the accounts. The income debentures must be redeemed prior to maturity if operating profits exceed certain limits. Avoca Mines Canada Limited (Avoca Canada) may not pay dividends or make payments of principal on its 7 % subordinated unsecured debentures until the income debentures are redeemed.		
7 % unsecured subordinated debentures:		
\$750,000 principal amount of these debentures has been issued by Avoca Canada of which \$495,000 held by Discovery Mines Limited has been eliminated on consolidation. These debentures mature on December 31, 1975 and Avoca Canada may not pay dividends until they are redeemed in full.		
Due to Receiver for St. Patrick's Copper Mines Limited:		
This amount is payable without interest in annual instalments equal to 15% of the profits of Avoca Ireland as defined by the agreement with the Receiver.		
Amount owing on equipment:		
In January, 1973 Avoca Ireland entered into an agreement with a French company for the purchase of capital equipment for use in its depth development programme. Under the terms of this agreement, 85% of the capital cost of this equipment, with interest thereon, is repayable by ten equal semi-annual instalments commencing in February, 1975.		
The obligations of the subsidiary under this agreement have been guaranteed by an Irish Government Agency, which holds a charge on the assets of Avoca Ireland.		
In this same connection, Discovery Mines Limited has given a guarantee which ensures that the Irish Government Agency will not incur any loss due to changes in currency exchange rates as between pounds sterling and the commercial French franc.		

DISCOVERY MINES LIMITED

8. BANK FINANCING

9¾ % cumulative redeemable preference shares of Avoca Ireland were issued in 1970 to that subsidiary's bankers for cash under a financing agreement.

In accordance with the terms of issue, dividends are payable quarterly commencing on March 31, 1971.

Redemption of the preference shares is due in half-yearly instalments from December 31, 1971 to June 30, 1974 subject to compliance with the requirements of the Companies Act, 1963 (Ireland). The final redemption of preference shares (\$425,272) is due on June 30, 1974.

The dividends paid in respect of the period November 18, 1970 to December 31, 1973 have been declared out of net earnings before providing for amortization of preproduction and development expenses.

The charge of \$125,987 in the accounts is in respect of dividends for fifteen months ended December 31, 1973.

9. MINORITY INTEREST

	1973 \$	1972 \$
Camlaren Mines Limited	28,350	29,199
Avoca Mines Canada Limited	1,925,895	1,393,681
	<u>1,954,245</u>	<u>1,422,880</u>

10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Directors and senior officers, as defined in the Business Corporations Act, received direct remuneration in the year ended December 31, 1973 of \$58,000.

11. PENSION PLAN

The company administers a pension plan in which it participates together with Avoca Ireland and Rayrock Mines Limited. During 1973, the plan was brought up to date to provide for existing circumstances and the company is paying each year for five years commencing in 1973 an amount of \$6,350 (Avoca Ireland — \$10,200) to provide fully for the increased benefits in accordance with actuarial calculations.

12. TAXATION

No liability for income tax or corporation profits tax arises on the operating profit of Avoca Ireland for the year, due to the provisions of the Finance Act, 1967 (Ireland) which provide for a 20 year tax-exempt period for mines. However, the Irish Government by announcements on September 25 and October 19, 1973 indicated its intention to withdraw this exemption from April, 1974. Details of the proposed amending legislation have not yet been made available.

13. SOURCE OF FUNDS FROM CURRENT OPERATIONS

	1973 \$	1972 \$
Net earnings (loss) for the year	501,092	(199,658)
Items not affecting working capital —		
Depreciation	972,793	676,784
Amortization of deferred development and financing expenses	1,026,270	668,711
Minority interest in consolidated net earnings (loss) for the year	531,365	(190,282)
Share of loss (income) determined by the equity method	4,705	(43,789)
Other	12,412	10,474
	<u>3,048,637</u>	<u>922,240</u>

14. RETAINED EARNINGS

Consolidated retained earnings includes the company's proportion (amounting to \$581,000) of a credit which Avoca Ireland carries in its accounts as "capital redemption reserve fund". This amount was segregated in the subsidiary's accounts in accordance with a statutory requirement upon the redemption of preferred shares (as outlined in note 8) and is non-distributable by Avoca Ireland to its parent company by way of ordinary dividend but may be distributed by way of formal capital redemption procedures.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Discovery Mines Limited and subsidiaries as at December 31, 1973 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
March 29, 1974.

COOPERS & LYBRAND,
Chartered Accountants.

